



Budget Development Guidelines

Although each fiscal year presents different circumstances and challenges, adherence to several underlying financial policies has successfully guided the Administration and County Commission in budget development. This shared fiscal discipline has placed Shelby County Government in a strong financial position to deal with current and future economic challenges.

What are the basic goals that guide the budget development process?

- To maintain structural budget balance by limiting recurring expenditures to reasonable projections of recurring revenues
- To maintain an appropriate fund balance to ensure a continued strong financial position for optimal credit ratings, sufficient cash flow, and resources for emergencies
- To maintain a stable property tax rate to allow adaptability to cyclical economic conditions or fiscal circumstances
- To adhere to the Debt Reduction Plan by limiting Capital Improvement Plan to a maximum annual county expenditure of \$75 million
- To actively seek to reduce or minimize expenditures through efficiency, technology, innovation or identification of alternate funding sources
- To continue to minimize the size of County government by focusing on the required core services of public safety, education, and health

What indicators measure our success in meeting those goals?

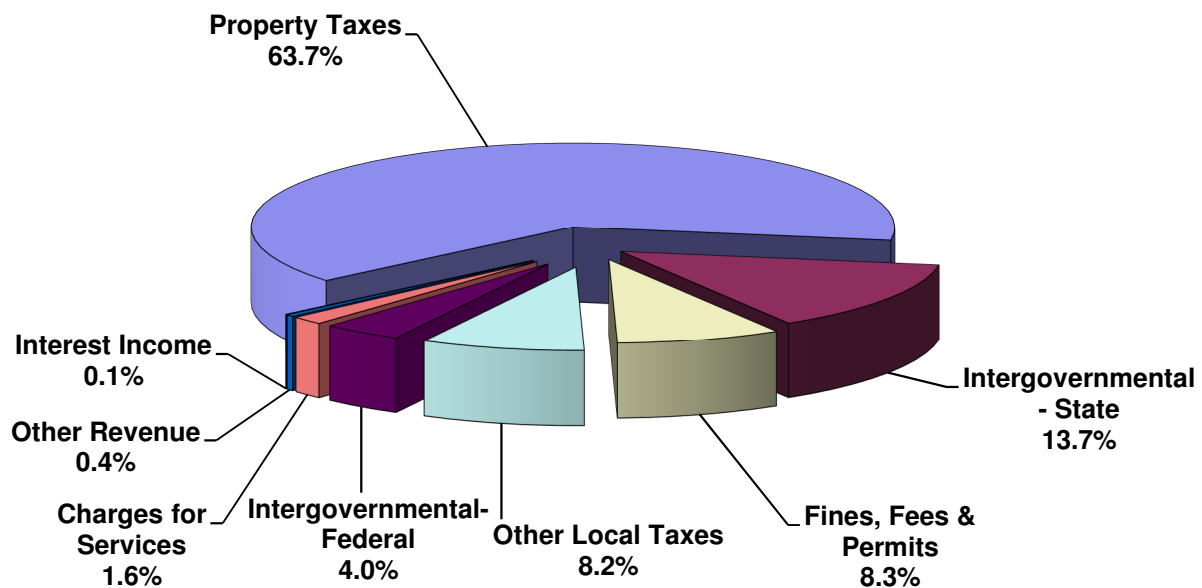
- Growth in General Fund Balance from 21% of revenue to about 26% of revenue since 2010
- Agency bond ratings maintained at AA+/AA1 during that period
- General Obligation Debt reduced almost \$400 million since 2010
- Average Annual Expenditure growth limited to less than .3% per year since 2010, including compensation, benefits and operational cost increases
- O&M (non-salary) budgeted expenditures reduced by 1.6 million since 2010
- Reduction of over 350 authorized General Fund FTE positions since 2008 – about 8% of the workforce

Proposed Budget Overview

The Proposed Budget for Fiscal Year 2015 is based on a total revenue projection of \$1,161,842,458. This amount represents a reduction of \$31.7 million from the FY14 adopted budget in the Federal grant category, primarily reflecting the transition of Head Start operations to another service provider. The property tax portion of this amount is based on a proposed tax rate of \$4.37 – a reduction of one cent from the current rate, and the elimination of the Rural School Bond tax of four cents.

Major revenue source categories are shown below with a comparison of the relative contribution of each category to the prior year adopted budget:

Revenue Category	FY15 Amount	FY15%	FY14%
Property Taxes	\$ 739,849,000	63.7%	61.8%
Intergovernmental - State	159,605,226	13.7%	13.0%
Fines, Fees & Permits	96,127,591	8.3%	8.1%
Other Local Taxes	95,427,000	8.2%	7.9%
Intergovernmental-Federal	46,676,946	4.0%	7.1%
Charges for Services	18,728,129	1.6%	1.6%
Other Revenue/Interest	5,428,566	.5%	.5%
Total Revenue	\$ 1,161,842,458	100.0%	100.0%

Countywide Revenue Overview

A more detailed analysis of revenue sources is provided in the "All Funds Summary" and the "General Fund Summary" sections of this document.

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Revenue is recorded by fund type on the basis of property tax allocations or the specific nature of the revenue source, as follows:

Revenue Fund Type	FY15 Amount	FY15%	FY14%
General Fund	\$ 371,946,758	32.0%	31.4%
Education Fund	381,288,000	32.8%	31.9%
Debt Service Fund	163,773,564	14.1%	13.7%
Grant Funds	113,745,595	9.8%	12.1%
Enterprise Funds	82,185,041	7.1%	6.9%
Special Revenue Funds	38,155,199	3.3%	3.2%
Internal Service Funds	10,748,302	.9%	.8%
Total Revenue	\$ 1,161,842,458	100.0%	100.0%

Major funds are those that constitute more than 10% of total revenue. For Shelby County, the General Fund, Education Fund and Debt Service Fund qualify as major funds. Although our focus is often placed on the General Fund and its impact on our residents and businesses, it is important to recognize that significant services are also provided to the community through other funds such as the Roads and Bridges, Fire Services, Codes Enforcement and Corrections Funds.

Property Tax Revenue



Property taxes are the primary source of operating revenue for Shelby County, providing 63.7% of total revenues. The property tax rate is set by the County Commission as a part of the annual budget review process at a level determined to be necessary to maintain a balanced budget while providing necessary services to residents.

The County has attempted to maintain stable property tax rates to avoid the need for increases required to adapt to cyclical economic and fiscal conditions without the use of reserve funds.

Property Tax Rate Allocations

The revenues derived from property taxes are allocated as follows:

Property Tax "penny" allocations			Property Tax % allocations:		
	<u>FY15</u>	<u>FY14</u>		<u>FY15</u>	<u>FY14</u>
Schools	\$ 2.14	\$ 2.14	Schools	49.0%	48.9%
General Fund	1.45	1.45	General Fund	33.2%	33.1%
Debt Service	0.78	0.79	Debt Service-Schools	10.8%	10.5%
Sub-total	\$ 4.37	\$ 4.38	Debt Service-Other	7.1%	7.5%
Rural Schools	-	0.04	Total	<u>100.0%</u>	<u>100.0%</u>
Total	<u>\$ 4.37</u>	<u>\$ 4.42</u>			

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Including Debt Service for Schools, Education actually receives 59.8% of all property taxes. Of the portion of the property tax rate allocated to the General Fund (33.2%), about 76% is used for Criminal Justice/Judicial services and programs, 14% for Health Services, and only 10% for other functions.

Property Tax Allocations



Functional Expenditures

Fiscal Year 2015 Countywide expenditures by functional categories consist of the following:

<u>Functional Category</u>	<u>FY15</u>	<u>FY15 %</u>	<u>FY14 %</u>
Education	\$ 381,288,000	32.8%	31.9%
Criminal Justice	309,239,282	26.6%	25.6%
Debt Service	163,773,564	14.1%	13.7%
Health	74,312,790	6.4%	6.3%
Public Works	83,844,135	7.2%	6.1%
Community Services	37,329,420	3.2%	6.7%
All Other	112,055,267	9.6%	9.7%
Total	\$ 1,161,842,458	100.0%	100.0%

Including debt service for schools, Education represents 41.2% of total expenditures from all funding sources.

Education

Education is both our highest priority and our most significant expenditure challenge. The current and proposed budgets reflect the impact of significant changes to the structure and funding for education within Shelby County. The issues of consolidating the two large districts of Memphis City Schools with Shelby County Schools in FY2014 have now evolved into a “de-merger” process for the newly unified district as a result of the creation of six new municipal districts for FY2015. However, we remain committed to supporting this essential community asset to the fullest extent possible with these resources:

- Education is budgeted to receive over half of all property taxes in FY2015, when school debt is included.
- Approximately 50% of the Wheel Tax is allocated to the schools for their operating costs, with any remainder used to pay debt service for schools.
- Capital Improvement funding of \$55 million annually
- State law requires that the County provide at least the same level of funding as the prior year, known as “maintenance of effort.”

It is imperative that we find a workable balance between academic excellence and fiscal responsibility that can be sustained over time for this new educational structure. Shelby County Government is responsible for providing equal funding for all students in public schools throughout the county and for approving the budget of the Shelby County School District.

General Fund Summary

The General Fund accounts for the general operations of County Government that are not specifically funded by other sources. Challenges to balancing the General Fund budget this year included:

- Reduced revenues related reimbursement cycles for elections and reappraisals
- Reductions in Judicial Fines & Fees collections
- The need to provide a general salary increase for employees
- Increases for pension funding and some large contractual agreements such as Inmate Medical Care
- Escalating health care costs - managed through changes to benefit plans
- Compliance requirements of the Affordable Care Act

The Elected Officials and Division Directors cooperated fully with the Mayor’s request for budget reductions to offset the cost of the proposed salary increase. Modest growth in projected property tax revenue and a reduction in the OPEB rate were also instrumental in balancing the General Fund budget without service reductions or use of fund balance.

The proportionate functional distribution of General Fund net expenditures is shown on the following page:

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Criminal Justice and Judicial operations account for 75.8% of General Fund expenditures.



<u>Functional Category</u>	<u>FY15 %</u>	<u>FY14 %</u>
Criminal Justice	61.3%	61.3%
Judicial	14.5%	14.1%
Health	14.2%	12.7%
Public Works/Comm Svcs	6.0%	6.2%
All Other	4.0%	5.8%
Total	100.0%	100.0%

Compensation & Benefits



Personnel costs now account for almost 73% of total General Fund expenditures. That makes employees the County's primary asset and most important investment in delivering high quality services to its residents. It is important that we protect that investment by offering equitable compensation and benefits to recruit and retain a highly qualified and professional staff. Our employees have also absorbed a portion of the incremental cost of health and pension benefits over the past few years and have compensated for the gradual reduction in workforce with increased productivity.

General increases have been provided in only six of the past 10 years – at an average rate of only 1.4% for that period. The history of general salary increases over the past ten years is provided in the General Fund section of this book. ***The FY2015 Proposed Budget includes funding for a 2.5% annualized general salary increase.***

Strategic efforts to contain costs related to personnel have resulted in the elimination of about 300 positions over the past six years in the General Fund, inclusive of the addition of 35 School Resource Officers for school security and 27 positions in the Public Defender's office for juvenile defense, as required for Department of Justice compliance. This gradual workforce

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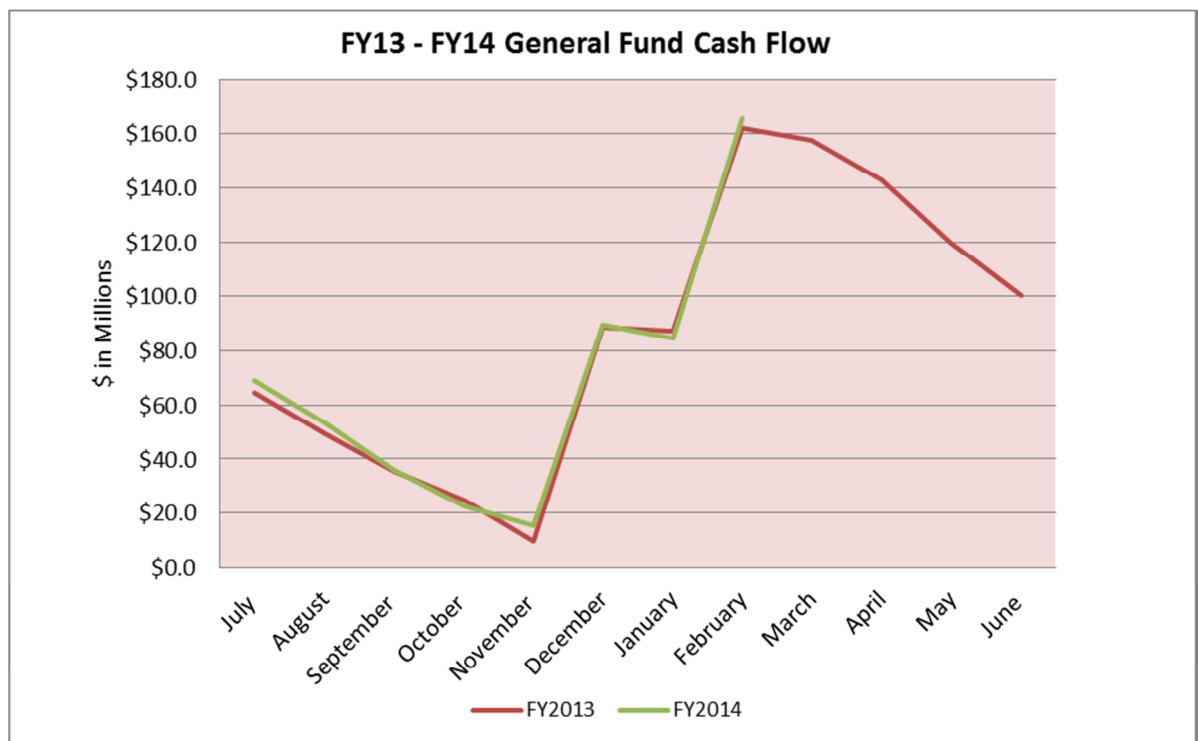
reduction has been achieved primarily through planned elimination of vacancies rather than layoffs, with minimal reduction in services as a result. However, the workforce has now been reduced to a level that does not make significant future reductions feasible without service reductions. Therefore, the FY2015 Position Control budget includes a reduction of only eleven (11) positions, with no layoffs.

The rising cost of pensions, health care and post-employment benefits will continue to present a significant challenge in controlling total personnel expense in the future. As we continue to explore innovative methods to contain these costs, we are investing today in our employees through training programs and wellness initiatives.

Planned Use of Fund Balance

Maintaining an appropriate General Fund Balance is an essential element of a strong financial plan. Fund Balance is important for several reasons:

- To provide funds for contingencies/emergencies
- To absorb the impact of federal/state funding reductions
- To demonstrate financial stability for higher bond ratings and lower cost of debt issuance
- To provide sufficient cash flow during the property tax collection cycle



As this chart illustrates, the annual tax collection cycle creates the need for large cash reserves

during several months of the fiscal year. A fund balance of about 27% would be advisable to allow for negative cash flow until December when most residential property taxes are collected. Therefore, the General Fund balance should be slowly increased by about \$10 million over several years to provide for sufficient cash flow.

The Moody's rating agency has reported that governments comparable in size to Shelby County with AA ratings maintain a median 26.85% fund balance; with AAA ratings a median amount was 28.87%. Shelby County has maintained an average fund balance of about 24% of revenue over the past five years. That is within the stated policy range of between 15-25% of revenue. Unassigned fund balance at 6/30/15 is estimated at about 25.7% or about \$95 million. No planned use of general fund balance has been included in the FY15 Proposed Budget.

In addition to the General Fund balance, the County maintains reserves within other funds that are dedicated for the specific uses or operating stabilization of those funds. All funds are projected to have an appropriate fund balance as of June 30, 2015.

Capital Improvement Plan

The Capital Improvement Plan presents the County's funding level commitment over the next five years. However, only the first year of the CIP plan is actually budgeted. The County's long-term Debt Reduction/Management Plan allows for allocations of approximately \$75 million per year.

Of that total amount, \$55 million is allocated annually for schools with an additional \$20 million for other projects. We continue to recommend and support pay-as-you-go funding for most capital projects other than schools. Shown below are the totals for each CIP project category budgeted for FY15 with significant projects from each group:



Schools - \$55.0 million

The \$55 million annual CIP allocation for schools was deferred for fiscal years 2012-2014, pending further review after school consolidation. This amount has been reinstated for fiscal years 2015-2019, although specific projects have not yet been identified. On March 25, 2014, the Shelby County School Board approved a request for \$52 million of current year capital funding in fiscal 2014. The County has not yet considered this request.

Buildings & Property - \$10.7 million

\$2.0M – Repairs and renovations to the Criminal Justice Center and Sheriff Substation
\$2.4M – District Cooling Loop for County downtown buildings
\$1.1M – Roof replacement at the Peggy Edmiston Building

Information Technology - \$3.5 million

\$1.0M – Time and Attendance system for countywide implementation
\$0.7M – Network and Host Server upgrade or replacement

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\$1.0M – HIPAA & HITECH Act Compliance and Service Desk Express (SDE) Replacement
\$0.8M – Other IT projects, including exploration of Voter Registration replacement systems

Community Projects - \$5.5 million

\$3.0M – “Heart of the Park” Shelby Farms Master Plan phase one
\$1.5M – Rail Expansion project
\$1.0M – Contingency

There are no major Roads & Bridges construction projects scheduled to begin construction in FY15, although design work will be done for future Walnut Grove road expansion and modifications to Macon and Houston Levee roads.

Long Term Debt



The County's outstanding bonded debt and commercial paper peaked at \$1.85 billion in December 2006, was reduced to \$1.37 billion at June 30, 2013, and will be approximately \$1.27 billion at June 30, 2014. Long term debt is expected to slowly decline from now on as long as CIP annual appropriations from County sources are limited to no more than \$75 million.

A graph in the Debt Service Fund section shows debt service requirements from FY2014 through FY2025. Debt service for FY2015 will be \$161 million, a decrease from the budgeted FY2014 amount of \$169 million, and will slowly decline thereafter. As long as we stay within our Debt and CIP Plans, the County will never need to raise additional revenue for debt service.

Challenges Ahead

Planning for the future is a critical element to the current year budget process. A five year financial projection is included in the General Fund Summary that illustrates the need to continue our efforts to contain costs and maximize revenue sources. There are a number of significant issues that could impact our budget in the next several years:

- **Funding for Education** - The appropriate funding level for the evolving school structure throughout Shelby County presents ongoing challenges amid some uncertainty at this point. The ultimate enrollment levels for each district, attendance districts, school closures, and staffing requirements have not yet been fully determined by the districts. Therefore, a period of transition will be necessary to determine needs within the redefined organization and to find a sustainable balance between meeting the educational needs of the community while staying within its realistic resources. This may significantly impact future county funding for Education.
- **Reductions to State or Federal grant funding** related to sequestration or other cutbacks may have an impact on the amount of funds available to the county in the future. Grant funds provide financial leverage to the County in providing important human services to our community. Some programs will need to be evaluated to determine whether county funding should be used to continue essential services if the grant funding is discontinued.

- **Providing equitable compensation** is an important element in maintaining a competitive compensation and benefits package so that we can ensure our ability to recruit and retain a highly professional staff. However, these annual or periodic increases require offsetting reductions or tax increases to balance the budget each year.
- **Escalating health care and pension costs** will continue to play a major role in the cost of current and post-employment personnel expenditures. The level of benefits that can be realistically and responsibly provided to employees on a long term basis will require evaluation and possibly some modifications.
- **Federal Affordable Care Act** and the potential expansion of State Medicaid may have a significant financial impact on the Regional Medical Center and some related benefits/expenses of the County.
- **Revenue Diversification** options must continue to be explored to reduce our dependence on property taxes.

Current Status and Outlook

While these challenges are daunting, there are also opportunities ahead. Collaborative economic development efforts by the Administration, Commission and other agencies have brought several large employers to Shelby County. Commercial indicators show increased activity in building permits, vacancy rates, leasing activity and construction. Local real estate conditions continue to compare favorably to many areas of the country, with residential sales improving based on the increased number of home sale transactions, stabilization of sale prices and reduced foreclosures and mortgage delinquencies.

Proactive financial management strategies that focus on operating efficiencies and effective debt management have been instrumental in maintaining the stability of Shelby County's financial status. Continuing efforts to promote revenue diversification and economic development and to address the fragmentation of services created by multiple elected officials will be instrumental in meeting the challenges of future growth. Bond rating agencies have noted a diversified and expanding economic base, strong financial performance and general fund position as the basis for the County's AA+/AA1 bond ratings.

Shelby County Board of Commissioners

James M. Harvey, Sr., Chairman, District 3, Position 1
Steve Basar, Chairman Pro Tempore, District 1, Position 3

Walter L. Bailey, Jr., *District 2, Position 1*
Mark Billingsley, *District 4, Position 2*
Henri E. Brooks, *District 2, Position 2*
Melvin Burgess, *District 2, Position 3*
Sidney Chism, *District 3, Position 2*
Justin Ford, *District 3, Position 3*

Steve Mulroy, *District 5*
Mike Ritz, *District 1, Position 1*
Terry Roland, *District 4, Position 3*
Heidi Shafer, *District 1, Position 2*
Chris Thomas, *District 4, Position 1*

Elected Officials

Assessor of Property – Cheyenne Johnson
Attorney General – Amy P. Weirich
County Clerk – Wayne Mashburn
County Mayor – Mark H. Luttrell, Jr.
County Register – Tom Leatherwood
County Trustee – David Lenoir
Juvenile Court Clerk – Joy Toulaitos
Chancery Court Clerk & Master – Donna Russell (Appointed)
Circuit Court Clerk – Jimmy Moore
Criminal Court Clerk – Kevin Key
General Sessions Court Clerk – Edward L. Stanton, Jr.
Probate Court Clerk – Paul Boyd
Sheriff – Bill Oldham

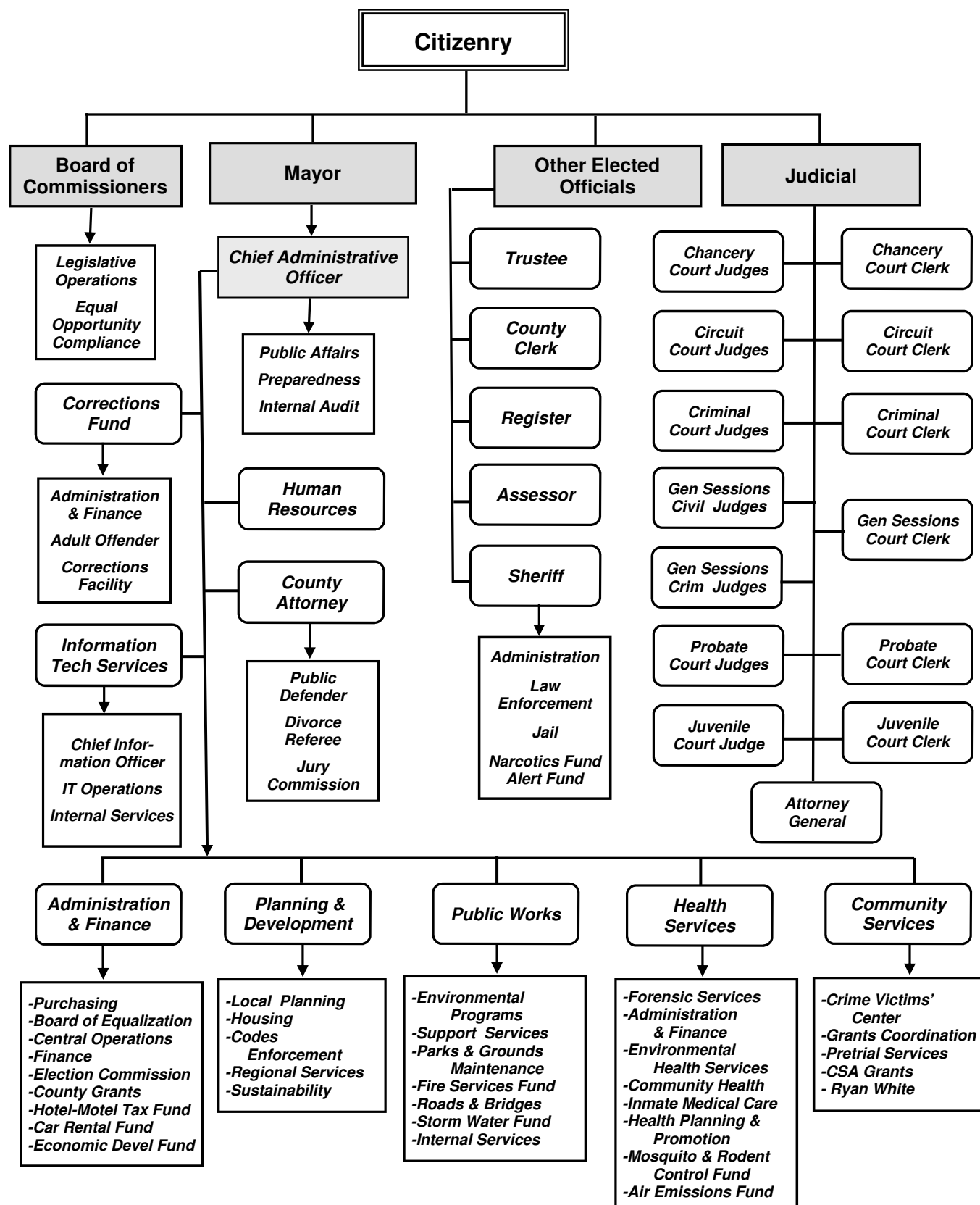
Shelby County Administrative Officials

Mark H. Luttrell, Jr., Mayor

Chief Administrative Officer – Harvey Kennedy
Chief Information Officer – John Halbert
Director of Administration and Finance – Mike Swift
Interim County Attorney – Marcy Ingram
Director of Planning and Development – Richard S. Copeland
Director of Public Works – Tom Needham
Director of Corrections – James Coleman
Director of Health Services – Yvonne Smith-Madlock
Director of Community Services – Dorothy Jones

Vasco A. Smith Administration Building

160 North Main Street
Memphis, Tennessee 38103
<http://www.shelbycountyttn.gov>



Format and Organization of the Budget Document:

As the **Table of Contents** illustrates, this book divides the budget information into multiple sections with pages numbered consecutively within each section.

The **Introduction** section includes the **Mayor's Letter of Transmittal and the Budget Overview**, a list of County Officials, a countywide organizational chart, and general information about Shelby County including fund accounting structure, and budget procedures and controls.

The second section, the **All Funds Summary**, presents the overall budget of Shelby County with supplemental information related to Revenues and Expenditures, the Position Control Budget, and Fund Balances.

The third section, the **General Fund Summary**, includes the Major Revenue Sources and Major Expenditures. It is followed by tabs for each division within the Mayor's Administration, the Sheriff, Judicial, and Other Elected Officials.

Each **Divisional Section** includes the following information:

- **Organizational Charts by Department** as a visual guide to the structure of each division for financial reporting purposes only. These charts are not intended to reflect the reporting hierarchy of specific positions.
- **Division Overview** narrative to present the Division mission and goals, issues and trends, performance highlights and significant budgetary issues for the budget year.
- **Division Summaries** to present total financial and position data for each division grouped by department, fund, and account groups. Position count indicates the Full-Time Equivalent (FTE) number of permanent full-time, part-time and split positions only. Temporary employees are not included in this position count.
- **Prime Account Reports** to summarize financial data within each division on a departmental basis for all fund types. The prime accounts are organized according to Shelby County's Chart of Accounts.
- **Program Budgets** for each department to give the reader relevant operational information including the overall mission, a description of activities and services, revenue sources and Service Level Measurements which provide quantitative service information.

The **Education** section presents the Education Fund which accounts for taxes collected and allocated for school operations. The County reports the Education Fund as a major fund.

The **Debt Service** section includes Shelby County debt management policy, the use and purpose of debt and its limits and capital financing funding types.

The **CIP** section provides a five year Capital Improvement Plan (CIP) for capital expenditures.

The **Appendix** presents supplemental information about Shelby County residents, businesses, and government including: fiscal policies, relevant demographic/statistical data, a glossary of budgetary terms and abbreviations that may be referenced in this document and contact information for elected and administrative offices.

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Budget Process

Operating Budget Process

The budget process establishes the priorities of Shelby County Government. A Commission resolution requires the County Mayor to submit a consolidated budget document to the Board of Commissioners by March 31 and State law requires that the County adopt a budget before July 1. These dates drive the budget calendar.

The formal budgetary process begins with a goal-setting workshop for senior administrative management. After identifying and prioritizing general goals and objectives, specific strategies and action plans for implementation are prepared at the division management level. This planning process serves as the basis for formulation of departmental budgets. These budgets are reviewed by the respective division directors and a combined division budget is prepared incorporating administrative review changes at that level.

Division budgets are submitted to the Chief Administrative Officer for a final level of administrative review. After any revisions and a final executive review by the Mayor, a consolidated budget for the County Administration is prepared. Elected Officials submit their respective budgets to the budget office to be included in a consolidated budget document that is presented to the Budget and Finance Committee of the Board of County Commissioners. The Shelby County Commission held a budget retreat on February 23, 2012, to jumpstart a review of preliminary budget numbers for county government as a whole.

State law requires the County to publish the annual proposed operating budget in a newspaper of general circulation. This statute specifies that the budget must be published no later than five days after it is presented to the county legislative body if the newspaper is published daily. However, the budget cannot be adopted until at least ten days after it is published.

The Budget and Finance Committee conducts public review meetings and recommends revisions to the consolidated budget. The revised consolidated budget is presented for approval to the Board of County Commissioners. The legislative body is responsible for final approval and appropriation of the consolidated budget and sets the property tax rate. The adoption of the budget shall be by resolution. The tax rate is set by Ordinance which requires three readings.

The financial plans of Shelby County are included in the annual capital and operating budgets to project all receipts and disbursements, and present the level of governmental services and the method of distributing costs to the various segments through the collection of taxes and fees. By the terms of its Home Rule Charter, Shelby County Government is not permitted to make any expenditure of funds unless funds sufficient for that expenditure have been appropriated by the Board of Commissioners.

The Operating Budget as adopted by the Commission specifies only the departments, major funds, and accounts to which monies are allocated. To ensure compliance with contractual and other spending restrictions and to facilitate internal and external reporting, some of these major funds, notably the Grant funds, are subdivided into multiple funds in the financial accounting system. Also, to control expenditures and monitor performance at a level of greater detail, many departmental operating budgets are subdivided by sections in the financial accounting system.

The Home Rule Charter prescribes that expenditures may not exceed budget by major account at department level. Moreover, Generally Accepted Accounting Principles prescribe that the County's financial statements include a presentation indicating budgetary compliance for all funds for which annual budgets are adopted. The State of Tennessee Comptroller of the Treasury reviews the County's adopted budget because the County has outstanding debt. The County's budget is submitted to the State Director of the Division of Local Finance after adoption.

Capital Improvements Budget Process

The County annually prepares a five year Capital Improvement Plan (CIP) for capital expenditures, as defined below. Each elected official and division director is asked to evaluate their capital needs for the next five years and to submit their requests for inclusion in the Capital Improvement Plan. Projects are prioritized based on the urgency of the need, as described in the request, with consideration also given to whether the project was included in the prior year CIP. A major factor in determining priorities is whether the project

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Budget Process

improves the efficiency and effectiveness of County government. Priority is also given to projects that will provide cost savings to the County. The County has an established maximum annual Capital Improvement Plan of \$75,000,000 from County funds (debt and pay-as-you-go). Of this, \$55 million is allocated for school funding.

Although the five-year Capital Improvement Plan is approved in total, only the budget for the first year is actually adopted as the CIP Budget. This budget is an allocation or indication of intent by the County Commission. The remaining four years are approved as the plan for the subsequent years. All projects in the approved Capital Improvement Budget are subject to subsequent appropriation by the Board of Commissioners. Each project must be approved by a resolution to appropriate the amount for the project and to approve the contract or purchase of the project.

Mid-Year Changes to the Adopted Budget

When unforeseen circumstances necessitate adjustments to the budget during the fiscal year, changes can be accomplished in two ways. The County Mayor or his designate is authorized to transfer budget amounts between line items of the same category (personnel related versus all other types of expenditures) of the same division (group of departments) and same fund type. A line item transfer shall be deemed effective when the Mayor or his designate has indicated his approval by signature. All other adjustments require a resolution. A resolution shall be deemed effective when signed by the Mayor to indicate his approval and by the Clerk of the County Commission or her deputy to attest its passage by the Commission.

Carry Forward Encumbrances

At any given time, there are certain agreements in place, evidenced by contracts or purchase orders, by which Shelby County is obligated to make various payments to vendors on condition of future performance of services or future deliveries of goods by the vendors. These obligations are known as encumbrances. The County's Accounting Policies Resolution prescribes that at every fiscal year end the old year's budget is reduced by the amounts of all such encumbrances then outstanding (known as carry forward encumbrances), and the new year's budget is increased by the same amount. Any amount by which a new year's budget is increased for carry forward encumbrances may only be expended as follows:

- 1) In the case of the Operating Budget, for the contract or purchase order for which the budget increase was made.
- 2) As prescribed by Resolution, General Fund carry forward encumbrances are restricted to Professional and Contracted Services, Rent Utilities & Maintenance and Asset Acquisitions in excess of \$5000. All other encumbrances remain open and reduce budget availability in the new year; unless the department requests that the encumbrance be closed.
- 3) In the case of Capital Projects Budget, for the specific purpose for which the monies were appropriated.

Position Control Budget

An integral part of the annual Adopted Operating Budget for Shelby County is the Position Control Budget (PCB) that defines the approved salary for each position. The purpose of the Position Control Budget is to ensure that total salary costs will not exceed the amount of the annual cost of living raise from one fiscal year to the next. This budget is maintained by the Finance Department throughout the year.

Any salary increase that is requested for an employee by a department for purposes of reclassification, equity, or other circumstances must first be approved by Compensation. The department must then identify funding for the increase through availability from another position, a salary contingency account, or an approved resolution appropriating funds from another source. Savings realized through vacancies or attrition (lapse) cannot be used to fund salary increase requests. Funds budgeted for variable salaries (overtime, etc.) or temporary salaries cannot be used to fund permanent salary obligations.

A significant factor within the position control budget at the divisional level is the salary restriction (also known as the lapse restriction). This reduction to available salary funds is made to allow for expected savings associated with vacancies or other types of naturally occurring attrition. Allowances are made to consider the variable attrition rates within different types of functions when salary restrictions are calculated.

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Chart of Accounts

The Shelby County Chart of Accounts is available on the County intranet site for department users with detailed descriptions of funds and accounts. The accounts are updated on a monthly basis to maintain complete and accurate information. Department budgets are adopted at the prime account level; those groupings are summarized below.

How to Read the Financial Data:

Each department's financial page presents a summary of all revenues, expenditures and transfers categorized by **Prime Account** groupings. The accounts are defined by Shelby County's **Chart of Accounts** – the financial coding structure used for budgeting and accounting purposes which was revised for Fiscal 2010.

The County uses **section numbers** to identify departments or activities for purposes of accumulating revenues and expenses and for budgetary control purposes. Each financial transaction includes a full account coding in the format of 123-123456-1234; the first set of 3 numbers is the fund number, the middle set of 6 numbers is the section number and the last set of 4 numbers is the account number.

Structure of Section Numbers:

The complete section number contains 6 digits. The number is subdivided into the following parts:

- a. First 2 digits: division number
- b. Middle 2 digits: the department number, when combined with the division number
- c. Last 2 digits: the section number, when combined with the department number.

Section number (6-digit) financial data is the lowest form of detail in the budget document in the form of program budgets.

Structure of Department Numbers:

This 4-digit number includes the division number and two additional numbers. For example, Department number 3011 is Public Works: Soil Conservation.

Compliance with the legally adopted budget of the County requires that expenses be charged to the correct section number at least to the department level, since the budget is adopted at the department level.

The following Division Numbers are assigned:

- 20 - Administration & Finance
- 25 - Information Technology Services
- 27 - Planning & Development
- 30 - Public Works
- 35 - Corrections Center
- 40 - Health Services
- 48 - Community Services
- 61 - Sheriff-Administration
- 62 - Sheriff-Law Enforcement
- 63 - Sheriff-Jail Division
- 70 - Judicial
- 80 - Other Elected Officials
- 91 - Education
- 92 - Debt Service
- 93 - Internal Service Funds, non-operating

Revenue and Expense Account Structure:

As noted above, the County uses a 4-digit "account number" to classify revenues by the source of the revenue and expenses by the nature of the related goods or services. In the budget document, the prime accounts provide detail by "pools" or a summary of all 4-digit accounts based on the first two digits of an account category. For example, a 60XX supplies pool is the total of all 4-digit accounts beginning with the account number "60."

The **Revenue** category includes the following prime account groupings:

- **Property Taxes** – Current and delinquent realty and personalty taxes collected by the Trustee.

- **Other Local Taxes** – Business taxes, interest and penalties on tax payments, MLGW in Lieu of Taxes, wholesale beer tax.
- **Intergovernmental Revenue – State** – County share of state sales tax, state grants and reimbursements, TVA Replacement tax, jail revenue from state.
- **Intergovernmental Revenue – Federal & Local** – Grants, revenues and reimbursements that Shelby County receives directly from the Federal Government. Cost reimbursements from the City of Memphis for shared services and other payments.
- **Charges for Services** – Various fees collected for services or property use such as rental income, inmate telephone system revenue, TennCare revenue for health services provided to patients covered by this insurance system.
- **Fines, Fees & Permits** – Fees collected by the Courts and Elected Officials such as drug treatment fees, title search fees, permits, and various court fines and fees.
- **Other Revenues** – Miscellaneous revenues not appropriately assigned to other categories such as private donor grants and interfund interest income.
- **Investment Income** – All income from investments, including interest earned, dividends, gains or losses on disposition of an investment and any other investment income.

The **Expense** category includes the following account groupings:

Salary-related expense accounts:

- **Salaries** – includes basic salaries and wages.
- **Other Compensation** – other forms of compensation and overtime.
- **Fringe Benefits** – includes benefits such as health, life, pension, and unemployment.
- **Salary Restrictions** – used only for budget purposes as an offsetting salary budget to estimate savings from vacant positions.

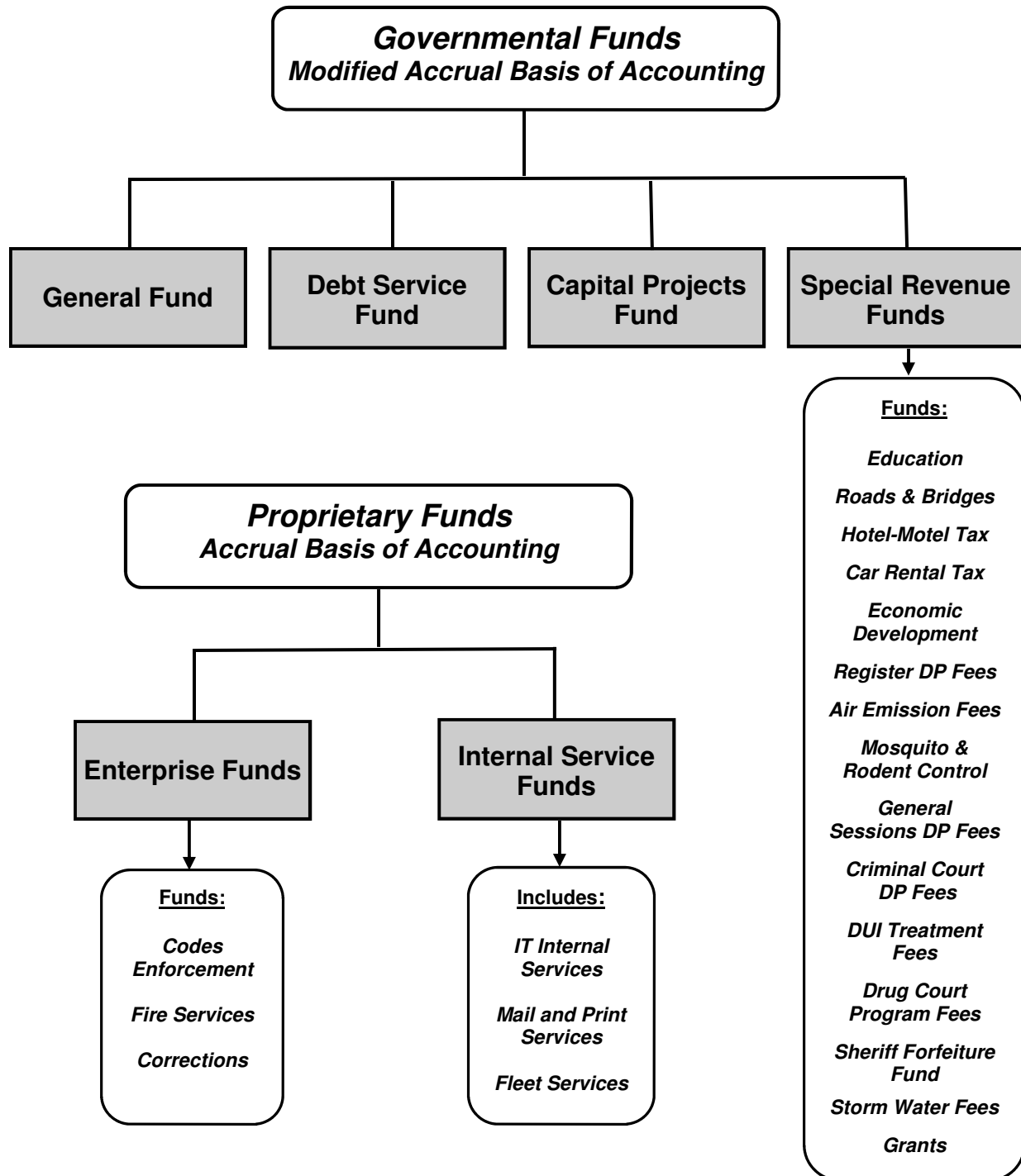
Operating Expense Accounts:

- **Supplies & Materials** – consists of materials and supplies, employee apparel, medical supplies, membership dues & publications.
- **Services & Other Expenses** – includes inside & outside printing, copy expense, education & training, travel, freight & storage.
- **Professional & Contracted Services** – includes contracts with consultants, sub-recipient of grant awards, and the jail medical contract.
- **Rent, Utilities & Maintenance** – includes communication expenses, utilities, maintenance of equipment and maintenance of County buildings.
- **Interfund Services** – charges or fees by one fund or department to another fund or department for the use of printing, copying, postage, fleet services, and repair of County vehicles.
- **Capital Asset Acquisitions** – used for the procurement of capital expenditures, land, buildings, equipment, infrastructure and vehicles.
- **Depreciation Expense** – used to record the periodic depreciation of capital assets based on estimated useful lives; depreciation expense is charged directly to internal service funds but used only for government-wide reporting for assets of the governmental funds.
- **Debt Service Expenditure** – expenditures related to debt from borrowing or capital lease financing, including principal repayment, interest payments and debt issuance costs.
- **Affiliated Organizations** – used to report payments to component units, joint ventures and other related organizations with which the County has an established affiliation.
- **Grants** – reports grants and subsidies to various not-for-profit organizations, other than those considered to be “Affiliated Organizations.”
- **Contingencies and Restrictions** – this category has budget amounts only since no actual expenses are charged to these accounts; used only by the central budget staff for budgeting for contingency and other unallocated budget purposes.
- **Other (Financing) Sources and Uses** – receipts and disbursements that are classified as “Other Sources and Uses” on financial statements such as the gain or loss on the disposition of a capital asset recognized in a proprietary fund.
- **Planned Use of Fund Balances** – used only for budget purposes to reflect budget adjustments when expenditures are effectively using fund balance from the end of the previous year.
- **Transfers** – Transfers are transfers between funds; purposes of transfers include local match for grants, operating subsidies and indirect cost allocations.

INTRODUCTION

Fund Accounting Structure

The accounts of Shelby County government are organized on the basis of funds, with the operations of each fund accounted for in a separate set of self-balancing accounts that comprise the assets, liabilities, equity, revenues, expenditures and transfers for that fund. Only Governmental and Proprietary funds are subject to appropriation in the operating budget. Fiduciary funds are not subject to appropriation and therefore, are not included in the chart below.



INTRODUCTION

Fund Accounting

The accounts of the County are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for in a separate set of self-balancing accounts that comprise the assets, liabilities, equity, revenues, and expenditures of each fund. Resources are allocated to each fund and accounted for based on the purpose for which they are designated and the means of controlling the spending activities. The individual funds are grouped into three basic types: Governmental, Proprietary or Fiduciary. Within the first two groups, the funds are further subdivided into six generic classifications: General, Debt Service, Capital Projects, Special Revenue, Enterprise, or Internal Service Funds. Only the governmental and proprietary funds are subject to appropriation as approved in the annual operating budget. Fiduciary funds are not generally subject to appropriation.

Major Funds:

Shelby County defines its major funds as those that equal more than either 10% of total appropriated revenues or 10% of total appropriated expenditures. The major funds of Shelby County include the General Fund, the Education Fund (a Special Revenue Fund), and the Debt Service Fund.

Fund Numbers:

A summary of the budgeted fund types by number are as follows:

Funds 001-049	General Funds
Funds 050-099	Special Revenue Funds
Funds 100-899	Grant Funds
Funds 901-904	Debt Service Funds
Funds 905-939	Capital Improvement Funds
Funds 950-959	Enterprise Funds
Funds 960-969	Internal Service Funds
Funds 980-989	Fiduciary Funds

GOVERNMENTAL FUNDS:

Governmental Funds are those through which most governmental functions are financed with the objective of having sufficient resources available to provide services to the public. A governmental fund's measurement focus is on the determination of financial position and changes in financial position. The modified accrual basis of accounting is used for governmental funds to recognize:

- 1) Revenues in the accounting period in which they are both measurable and available to finance expenditures made during the current fiscal period.
- 2) Expenditures in the accounting period in which the liabilities are both measured and incurred.

All funds that use the modified accrual basis of accounting are expendable and do not, therefore, have a capital maintenance objective. Four types of governmental funds are employed by the County: the General Fund, Special Revenue Funds, Debt Service Fund and Capital Improvements Fund.

General Fund

The General Fund is the most significant Governmental Fund. Transactions related to resources obtained and used for delivery of those services traditionally provided by a county government, which are not accounted for in other funds, are accounted for in the General Fund. These services include, among other things, general government, health, public works and community services. The operations of all fee operating elected offices are accounted for as sub-funds of the General Fund. General Fund revenues come from many different sources.

Special Revenue Funds

Transactions related to resources obtained and used for certain Federal and State programs and from other resources upon which legal restrictions are imposed are accounted for in the Special Revenue Funds. The following funds comprise the Special Revenue Funds:

The **Education Fund** accounts for revenues collected and allocated to the Shelby County Board of Education.

The **Economic Development Fund** provides a comprehensive accounting for resources received that can be used only for economic development activities supported by the County.

The **Roads and Bridges Fund** accounts for the receipt and expenditures of the County's share of the proceeds from the state gasoline tax and additional allocations from the State of Tennessee for road repairs and maintenance.

The **Hotel/Motel Tax Fund** accounts for the 5% tax collected on hotel and motel room rentals in Shelby County for the purpose of funding debt service repayment for the Sports Authority and funding for the Convention and Visitor's Bureau.

The **Sheriff Forfeiture Fund** accounts for the proceeds of goods seized and forfeited under the provisions of T. C. A. Section 53-11-451; includes the **Narcotic Fund**, **Alert Fund** and **DUI Vehicle Seizures Fund**.

The **Register's Data Processing Fees Fund** accounts for the \$2.00 fee collected on every document recorded by the Register to fund computer acquisition and enhancements for the Register's office.

The **General Sessions Data Processing Fees Fund** accounts for fees collected by the General Sessions Civil and Criminal Court Clerk to provide funds for computer acquisition and enhancements for the General Sessions Court Clerk's office.

The **Criminal Court Data Processing Fees Fund** accounts for fees collected by the Criminal Court Clerk to provide funds for computer acquisition and enhancements for the Criminal Court Clerk's office.

The **DUI Treatment Fines Fund** accounts for fines collected by General Sessions, Criminal and GS Drug Courts for use in alcohol & drug treatment programs through services offered by certain qualified organizations. DUI funds will be used in conjunction with services provided by Drug Court program.

The **Drug Court Program Fees Fund** accounts for fines collected by General Sessions and Criminal Courts and the GS Drug Court to be used exclusively for the creation and maintenance of state drug court treatment programs.

The **Car Rental Tax Fund** accounts for the car rental tax restricted for payment to the Public Building Authority for the funding of the NBA arena.

The **Air Emission Fees Fund** accounts for the proceeds of emission fees to be used in the Environmental Protection Agency (EPA) Title V program regulating all major and minor air emission sources in Shelby County.

The **Vector Control Fund** accounts for the collection of the Vector Control fee of \$.75 charged to all MLG&W customers on a monthly basis for the control of mosquito and rat populations.

The **Grants Fund** accounts for the receipts and expenditures of federal, state and other grants received by various County departments.

The **Storm Water Fund** accounts for fees collected from customers in unincorporated Shelby County to provide a dedicated source of funds to implement the provisions of the county's Storm Water Ordinance.

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest and related costs (except for bonds issued for Proprietary Funds, which are reported as liabilities of the respective Proprietary Fund).

Capital Improvements Fund

The Capital Improvements Fund accounts for the acquisition and use of resources for the construction or purchase of major, long-lived fixed assets, except for those which are financed by Enterprise or Internal Service Funds. Resources for construction or purchase normally come from the issuance of general long-term debt and from governmental grants. A five-year Capital Improvements Fund plan is approved by the Board of Commissioners, while only the first year of the plan is included in the annual adopted budget. In order for a project to be appropriated, a commission-approved resolution is still necessary.

PROPRIETARY FUNDS:

Proprietary Funds are used to account for the organizations and activities of the County which are similar to those often found in private enterprises. The measurement focus is on determination of net income, financial position, and changes in financial position. The accrual basis of accounting is used for Proprietary Funds to recognize:

- 1) Revenues in the accounting period that the revenues are earned
- 2) Expenses in the accounting period that the expenses are incurred

Both the revenues and expenditures must be measurable in order to be reported in the accrual basis. Two types of Proprietary Funds are employed by the County: Enterprise Funds and Internal Service Funds.

Enterprise Funds

Enterprise Funds account for operations (a) that are financed and operated in a manner similar to private enterprises where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Enterprise Funds used by the County are as follows:

The ***Consolidated Codes Enforcement Fund*** accounts for operations of the Memphis and Shelby County Office of Construction Codes Enforcement. Revenues are generated through fees charged by the office.

The ***Fire Services Fund*** accounts for the operations of the Fire Department. Revenues are received from fees charged for fire services.

The ***Corrections Center Fund*** accounts for the operations of the Corrections facilities. Revenues are received from the State of Tennessee based on actual costs incurred for housing state prisoners.

Internal Service Funds

Internal Service Funds account for the financing of goods or services provided by one department to other departments or agencies of the County on a cost reimbursement basis. Shelby County uses an Internal Service Fund to account for the accumulation and allocation of costs associated with Mail and Print Services, Telecommunication Services, and Fleet Services.

FIDUCIARY FUNDS (Non-budgetary Funds)

Fiduciary funds (non-expendable trust funds) account for resources that are held by the County as a trustee or agent for parties outside the County and that cannot be used to support the government's own programs. Fiduciary funds are not appropriated in the operating budget. The following funds comprise the Fiduciary Funds:

The ***Pension Trust Fund*** accounts for the activities of the County's retirement plan, which accumulates resources for pension payments to employees.

The ***Other Post-employment Benefits (OPEB) Trust*** accounts for the fund used to accumulate and provide health and life insurance to retirees. Revenues for the Pension and OPEB Funds are provided by employer (County) contributions and premiums are paid by retirees.

The ***On-the-Job Injury (OJI) Fund*** accounts for the employee OJI program operated by the County. This self-insured fund is the County's equivalent of workers' compensation insurance.

The ***Unemployment Compensation Fund*** accounts for the unemployment compensation program operated by the County.

The ***Constitutional Officers Agency Fund*** accounts for assets held by the County's constitutional officers and other elected officials in an agency capacity for governments, litigants, heirs and others. Agency funds are custodial in nature and do not involve measurement of results of operations.

OTHER FUNDS (Non-budgetary)

The following non-budgetary fund exists only to provide payroll services for organizations not directly affiliated with the County. All costs are reimbursed by the organization:

The Memphis & Shelby County Film & TV Commission Fund; the County processes the payroll for this entity. This fund is used to record the net payroll amount due from the Film & TV Commission and the receipt of that amount.

INTRODUCTION

Fund-Division Matrix

Relationship Between Functional Units and Financial Structure

DIVISION-FUND	General Fund	Special Revenue Funds	Enterprise Funds	Internal Service Funds	Grant Funds	Debt Service Fund	CIP Funds
ADMINISTRATION & FINANCE:							
Various Programs*	X				X		X
Hotel-Motel Tax Fund		X					
Car Rental Tax Fund		X					
INFORMATION TECHNOLOGY SERVICES:							
Various Programs*	X						
IT Internal Services				X			
PLANNING & DEVELOPMENT:							
Various Programs*	X				X		
Codes Enforcement Fund			X				
CORRECTIONS*			X		X		
PUBLIC WORKS:							
Various Programs*	X				X		X
Roads and Bridges Fund		X					
Storm Water Fund		X					
Fire Services Fund			X				X
Mail and Print Services				X			
Fleet Services				X			
HEALTH SERVICES:							
Various Programs*	X				X		X
Air Emissions Fund		X					
Mosquito & Rodent Control Fund		X					
COMMUNITY SERVICES*	X				X		
SHERIFF:							
Various Programs*	X				X		X
Sheriff Forfeiture Fund		X					
JUDICIAL:							
Various Programs*	X				X		X
Court DP Fees		X					
Drug Court/DUI Fees		X					
OTHER ELECTED OFFICIALS							
Various Programs*	X						X
Register DP Fees		X					
EDUCATION		X					X
DEBT SERVICE						X	

*Detailed information about programs within each Division or Fund is provided within the Division Summary sections. Detailed information and appropriation status for CIP Projects are provided in the CIP Section.

